Catlin Insurance Company Ltd.

Consolidated Financial Statements

For the Years Ended 31 December 2008 and 2007

(Expressed in US dollars)

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To the Board of Directors and the Stockholder of Catlin Insurance Company Ltd.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, consolidated statements of changes in stockholder equity, consolidated statements of cash flows and notes to the financial statements present fairly, in all material respects, the financial position of Catlin Insurance Company Ltd. and its subsidiaries at December 31, 2008 and December 31, 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for its fixed maturities and short term investments with effect from January 1, 2008 with the adoption of a new accounting pronouncement.

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March 26, 2009

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Catlin Insurance Company Ltd.
Consolidated Balance Sheets
As at 31 December 2008 and 2007
(US dollars in thousands, except for share amounts)

	2008	2007
Assets		
Investments		
Fixed maturities, at fair value (amortised cost 2008: $2,813,554; 2007: $2,928,717)	$2,708,221	$2,948,950
Short-term investments, at fair value	68,982	47,605
Investments in funds, at fair value	800,787	946,418
Investment in associate	-	2,537
Total investments	3,577,990	3,945,510
Cash and cash equivalents	2,352,715	2,052,792
Securities lending collateral	32,899	44,662
Accrued investment income	31,211	37,274
Premiums and other receivables	1,079,551	1,052,849
Reinsurance recoverable	1,225,631	1,012,781
Reinsurers' share of unearned premiums	302,157	224,235
Deferred policy acquisition costs	247,529	247,171
Intangible assets and goodwill	650,748	884,428
Derivatives, at fair value	6,602	9,035
Other assets	146,117	87,135
Total assets	$9,653,150	$9,597,872
Liabilities, Minority Interest and Stockholder's Equity		
Liabilities:		
Reserves for losses and loss expenses	$4,606,256	$4,237,525
Unearned premiums	1,536,203	1,506,899
Reinsurance payable	476,485	232,004
Accounts payable and other liabilities	236,212	219,034
Subordinated debt	97,881	100,825
Derivatives, at fair value	17,163	9,099
Securities lending payable	32,899	44,662
Deferred tax liability (net)	176,326	224,842
Due to parent	72,033	261,245
Total liabilities	$7,251,458	$6,836,135
Minority interest	-	757

The accompanying notes are an integral part of the consolidated financial statements.

Catlin Insurance Company Ltd.
Consolidated Balance Sheets (continued)
As at 31 December 2008 and 2007
(US dollars in thousands, except for share amounts)

	2008	2007
Stockholder's equity		
Ordinary common stock	$1,000	$1,000
Preferred shares	589,785	589,785
Additional paid-in capital	1,499,915	1,499,915
Accumulated other comprehensive (loss)/income	(300,652)	38,820
Retained earnings	611,644	631,460
Total stockholder's equity	2,401,692	2,760,980
Total liabilities, minority interest and stockholder's equity	$9,653,150	$9,597,872

The accompanying notes are an integral part of the consolidated financial statements.

Catlin Insurance Company Ltd.
Consolidated Statements of Operations
For the years ended 31 December 2008 and 2007
(US dollars in thousands, except for share amounts)

	2008	2007
Revenues		
Gross premiums written	$3,437,004	$3,360,626
Reinsurance premiums ceded	(825,561)	(787,108)
Net premiums written	2,611,443	2,573,518
Change in net unearned premiums	(15,402)	(83,984)
Net premiums earned	2,596,041	2,489,534
Net investment income	232,619	265,405
Net (losses)/gains on investments in funds	(212,495)	29,824
Net losses on fixed maturities and short-term investments	(111,488)	-
Net realised losses on investments available for sale	-	(78,970)
Change in fair values of derivatives	(12,527)	(30,088)
Net realised losses on foreign currency exchange	(17,999)	(5,607)
Other income	17,523	29,358
Total revenues	2,491,674	2,699,456
Expenses		
Losses and loss expenses	1,631,837	1,154,670
Policy acquisition costs	510,238	530,972
Administrative and other expenses	350,001	442,895
Total expenses	2,492,076	2,128,537
Net (loss)/income before minority interest and income tax expense	(402)	570,919
Minority interest	23	8
Income tax benefit/(expense)	9,639	(59,790)
Net income	9,260	511,137
Preferred share dividend	(43,500)	(21,868)
Net (loss)/income available to common stockholder	$(34,240)	$489,269

The accompanying notes are an integral part of the consolidated financial statements.

Catlin Insurance Company Ltd.
Consolidated Statements of Changes in Stockholder's Equity
For the years ended 31 December 2008 and 2007
(US dollars in thousands, except for share amounts)

	Common stock	Preferred shares	Additional paid-in capital	Retained earnings	Accumulated other comprehensive (loss)/income	Total stockholder's equity
Balance 1 January 2007	$1,000	$-	$799,915	$238,269	$(26,090)	$1,013,094
Comprehensive income:						
Net income available to common stockholder	-	-	-	489,269	-	486,269
Other comprehensive income	-	-	-	-	64,910	64,910
Total comprehensive income	-	-	-	489,269	64,910	554,179
Issuance of preferred shares	-	589,785	-	-	-	589,785
Dividends	-	-	-	(96,078)	-	(96,078)
Capital contribution from parent	-	-	700,000	-	-	700,000
Balance 31 December 2007	$1,000	$589,785	$1,499,915	$631,460	$38,820	$2,760,980
Comprehensive income:						
Cumulative effect of adoption of FAS159	-	-	-	14,424	(14,424)	-
Net loss to common stockholder	-	-	-	(34,240)	-	(34,240)
Other comprehensive loss	-	-	-	-	(325,048)	(325,048)
Total comprehensive loss	-	-	-	(19,816)	(339,472)	(359,288)
Balance 31 December 2008	$1,000	$589,785	$1,499,915	$611,644	$(300,652)	$2,401,692

The accompanying notes are an integral part of the consolidated financial statements.

Catlin Insurance Company Ltd.
Consolidated Statements of Cash Flows
For the years ended 31 December 2008 and 2007
(US dollars in thousands, except for share amounts)

	2008	2007
Cash flows (used in)/provided by operating activities		
Net income	$9,260	$511,137
Adjustments to reconcile net income to net cash provided by operations:		
Amortisation and depreciation	22,198	18,733
Amortisation on net discounts of fixed maturities	(4,260)	(3,450)
Net losses on investments	323,983	49,146
Changes in operating assets and liabilities		
Reserves for losses and loss expenses	731,316	174,357
Unearned premiums	157,794	198,928
Premiums and other receivables	(124,021)	517,898
Deferred policy acquisition costs	(23,962)	(101,131)
Value of in-force business acquired	-	120,705
Reinsurance payable	285,134	388,945
Reinsurance recoverable	(355,400)	(349,302)
Reinsurers' share of unearned premium	(121,979)	(118,384)
Accounts payable and other liabilities	34,035	(352,428)
Deferred tax liability (net)	13,788	136,545
Other	(16,045)	(219,538)
Net cash flows provided by operating activities	931,841	972,161
Cash flows (used in)/provided by investing activities		
Purchases of fixed maturities	(1,393,257)	(2,227,686)
Proceeds from sales of fixed maturities	1,359,981	2,593,971
Proceeds from maturities of fixed maturities	49,981	139,295
Net proceeds from purchases, sales and maturities of short-term investments	(21,131)	(34,984)
Cash flows arising from investment in associate	6,892	1,064
Purchases of investment in funds	(84,000)	(551,210)
Redemptions of investments in funds	7,049	-
Purchases of intangible assets	-	68
Purchases of property and equipment	(11,673)	(21,247)
Proceeds from sales of property and equipment	85	1,808
Investment of securities lending collateral, net	11,763	96,991
Net cash flows used in investing activities	(74,310)	(1,930)

The accompanying notes are an integral part of the consolidated financial statements.

Catlin Insurance Company Ltd.
Consolidated Statements of Cash Flows

For the years ended 31 December 2008 and 2007
(US dollars in thousands, except for share amounts)

	2008	2007
Cash flows (used in)/provided by financing activities		
Dividends paid on common stock	-	(96,078)
Net proceeds from issue of preferred shares	-	589,785
Dividends paid on preferred shares	(43,500)	(21,868)
Securities lending collateral repaid	(11,763)	(96,991)
Due (to)/from parent	(189,215)	(1,311,350)
Net cash flows used in financing activities	(244,478)	(936,502)
Net increase in cash and cash equivalents	613,053	33,729
Cash and cash equivalents – beginning of year	2,052,792	1,968,945
Effect of exchange rate changes	(313,130)	50,118
Cash and cash equivalents – end of year	$2,352,715	$2,052,792
Supplemental cash flow information		
Taxes (received)/paid	$(9,481)	$20,140
Interest paid	$7,093	$8,031
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	$2,025,753	$1,608,199
Cash equivalents	$326,962	$444,593

1 Nature of operations

Catlin Insurance Company Ltd. ('Catlin' or the 'Company') is a Bermuda Class 4 licensed insurer, incorporated 18 December 2000. It is a wholly owned subsidiary of Catlin Group Limited ('the Group' or 'parent'), a Bermuda licensed holding company. The Company, together with its subsidiaries, ('CICL Group') writes insurance and reinsurance of worldwide property and casualty risks.

The CICL Group consists of four underwriting segments:

- Catlin Syndicate, which operates at Lloyd's of London;
- Catlin Bermuda ;
- Catlin UK (Catlin Insurance Company (UK) Limited); and
- Catlin US, which is the trading name for the Company's various subsidiaries in the United States. Catlin US includes Catlin Inc. as well as two insurance companies: Catlin Insurance Company Inc. and Catlin Specialty Insurance Company.

At 31 December 2008, CICL Group, through intermediate companies, also had established operations in Australia, Austria, Belgium, Brazil, Canada, China, France, Germany, Guernsey, Italy, Japan, Malaysia, Singapore, Spain and Switzerland.

CICL Group writes abroad range of products, including property, casualty, energy, marine and aerospace insurance products and property, catastrophe and per-risk excess, non-proportional treaty, aviation, marine, casualty and motor reinsurance business. Business is written from many countries, although business from the United States predominates.

On 18 December 2006, the Group declared unconditional its offer to acquire all of the issued and to be issued share capital of Wellington Underwriting plc ('Wellington'). During 2007, following the 18 December 2006 acquisition of Wellington, the Group undertook an internal restructuring to rationalise its corporate structure, align capital with risk and improve efficiency:

- Catlin (North American) Holdings Ltd ('CNAH'), a subsidiary of the Company, acquired all of the share capital of Catlin Holdings (UK) Ltd ('CHUKL') from the Company's parent for consideration of $275,932. The core business of CHUKL and its subsidiaries is in the Lloyd's Market.
- CNAH acquired all of the share capital of Wellington's subsidiaries from Wellington for total consideration of $700,000. The business of Wellington's subsidiaries is primarily in the Lloyd's Market, and also includes insurance operations in the United States.

Upon completion of the restructuring, the CICL Group included all group companies except the ultimate parent company, Catlin Group Limited.

2 Significant accounting policies

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ('US GAAP'). The preparation of financial statements in conformity with US GAAP requires management to make estimates when recording transactions resulting from business operations based on information currently available. The most significant items on the CICL Group's balance sheet that involve accounting estimates and actuarial determinations are reserves for losses and loss expenses, deferred policy acquisition costs, reinsurance recoverables, valuation of investments, intangible assets and goodwill. The accounting estimates and actuarial determinations are sensitive to market conditions, investment yields, commissions and other

policy acquisition costs. As additional information becomes available, or actual amounts are determinable, the recorded estimates will be revised and reflected in operating results. Although some variability is inherent in these estimates and actual results may differ from the estimates used in preparing the consolidated financial statements, management believes the amounts recorded are reasonable. Certain insignificant reclassifications have been made to prior year amounts to conform to the 2008 presentation.

Principles of consolidation
The consolidated financial statements include the accounts of the Company and all of its wholly owned subsidiaries. All significant inter-company transactions and balances are eliminated on consolidation.

Reporting currency
The financial information is reported in United States dollars ('US dollars' or '$').

Investments in fixed maturities and short term investments
The CICL Group's investments in fixed maturities and short-term investments are carried at fair value. The fair value is based on the quoted market price of these securities provided by either independent pricing services, or, when such prices are not available, by reference to broker or underwriter bid indications. Short-term investments are composed of securities due to mature between 90 days and one year from the date of purchase.

Net investment income includes interest income together with amortisation of market premiums and discounts and is net of investment management and custodian fees. Interest income is recognised when earned. Premiums and discounts are amortised or accreted over the lives of the related securities as an adjustment to yield using the effective-interest method and amortisation is recorded in current period income. For mortgage-backed securities and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and revised as necessary. Any adjustments required due to the resultant change in effective yields and maturities are recognised prospectively.

Effective 1 January 2008, the CICL Group applied the fair value option permitted by the Financial Accounting Standards Board ('FASB') Statement of Financial Accounting Standard No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ('FAS 159') to its fixed maturities and short-term investments. In 2008, following the adoption of FAS 159, all gains or losses on fixed maturities and short-term investments are included in net income. In 2007 realised gains or losses were included in net income and unrealised gains or losses were included in accumulated other comprehensive income in stockholder's equity, subject to impairment as discussed below. On adoption of FAS 159, unrealised gains have been reclassified from accumulated other comprehensive income to opening retained earnings as at 1 January 2008.

Other than temporary impairments
In 2007, prior to adoption of FAS 159, the CICL Group regularly monitored its investment portfolio to ensure that investments that may have been other than temporarily impaired were identified in a timely fashion and properly valued, and that any impairments were charged against net income (through net realised losses on investments) in the proper period. The CICL Group's decision to make an impairment provision was based on regular objective reviews of the issuer's current financial position and future prospects, its financial strength rating and an assessment of the probability that the current market value would recover to former levels and required the judgment of management. In assessing the potential recovery of market value for debt securities, the CICL Group also took into account the timing of such recovery by considering whether it had the ability and intent to hold the investment to the earlier of (a) settlement or (b) market price recovery. Any security whose price decrease was deemed other-than-temporary was written down to its then current market level and the cumulative net loss previously recognised in stockholder's equity was removed and charged to net income. Inherently, there were risks

and uncertainties involved in making these judgments. Changes in circumstances and critical assumptions such as a continued weak economy, financial market disruption or unforeseen events which affect one or more companies, industry sectors or countries could have resulted in additional write-downs in future periods for impairments that were deemed to be other-than-temporary. Additionally, unforeseen catastrophic events may have required the Group to sell investments prior to the forecast market price recovery. In 2008, following adoption of FAS 159, all unrealised gains and losses are recorded in the income statement and therefore the CICL Group is no longer required to assess whether investments are other than temporarily impaired.

Investments in funds
The CICL Group's investments in funds are considered to be trading and are carried at fair value. The fair value is based on either the net asset value provided by the funds' administrators or, where available, the quoted market price of the funds. Management assesses the reasonableness of the valuation principles that the administrators use as described in the funds prospectus and articles of association. The gains or losses resulting from changes in fair value are included within net income.

Investment in associate
Investment in associate comprised an investment in a limited liability corporation which was disposed of in 2008. This investment was accounted for using the equity method.

Derivatives
In accordance with Statement of Financial Accounting Standard No. 133, Accounting for Derivative Instruments and Hedging Activities ('FAS 133'), the CICL Group recognises derivative financial instruments as either assets or liabilities measured at fair value. Gains and losses resulting from changes in fair value are included in net income.

The fair values of the catastrophe swap agreements described in Note 9 are determined by management using internal models based on the valuation of the underlying notes issued by the counterparty. The determination of the fair values takes into account changes in the market for catastrophic reinsurance contracts with similar economic characteristics and the potential for recoveries from events preceding the valuation date. The fair values of other derivative financial instruments are derived from independent valuation sources.

Cash and cash equivalents
Cash equivalents are carried at cost, which approximates fair value, and include all investments with original maturities of 90 days or less.

Securities lending
Certain entities within the CICL Group participate in securities lending arrangements whereby specific securities are loaned to other institutions, primarily banks and brokerage firms, for short periods of time. Under the terms of the securities lending agreements, the loaned securities remain under the CICL Group's control and therefore remain on the CICL Group's balance sheet. Collateral in the form of cash, government securities and letters of credit is required and is monitored and maintained by the lending agent. The CICL Group receives interest income on the invested collateral, which is included in net investment income in the Consolidated Statements of Operations.

Premiums
Premiums written are primarily earned on a daily pro rata basis over the terms of the policies to which they relate. Accordingly, unearned premiums represent the portion of premiums written which is applicable to the unexpired risk portion of the policies in force.

Reinsurance premiums assumed are recorded at the inception of the policy and are estimated based on information provided by ceding companies. The information used in establishing these estimates is reviewed and subsequent adjustments are recorded in the period in which they are determined. These premiums are earned over the terms of the related reinsurance contracts.
For multi-year policies written which are payable in annual instalments, and where the insured or reinsured has the ability to commute or cancel coverage within the term of the policy, only the annual premium is included as written premium at policy inception. Annual instalments are included as written premium at each successive anniversary date within the multi-year term.

Reinstatement premiums are recognised and fully earned as they fall due.

Deferred policy acquisition costs
Certain policy acquisition costs, consisting primarily of commissions and premium taxes, that vary with and are primarily related to the production of premium, are deferred and amortised over the period in which the related premiums are earned.

A premium deficiency is recognised immediately by a charge to net income to the extent that future policy premiums, including anticipation of interest income, are not adequate to recover all deferred policy acquisition costs ('DPAC') and related losses and loss expenses. If the premium deficiency is greater than unamortised DPAC, a liability will be accrued for the excess deficiency.

Reserves for losses and loss expenses
A liability is established for unpaid losses and loss expenses when insured events occur. The liability is based on the expected ultimate cost of settling the claims. The reserve for losses and loss expenses includes: (1) case reserves for known but unpaid claims as at the balance sheet date; (2) incurred but not reported ('IBNR') reserves for claims where the insured event has occurred but has not been reported to the CICL Group as at the balance sheet date; and (3) loss adjustment expense reserves for the expected handling costs of settling the claims.

Reserves for losses and loss expenses are established based on amounts reported from insureds or ceding companies and according to generally accepted actuarial principals. Reserves are based on a number of factors, including experience derived from historical claim payments and actuarial assumptions to arrive at loss development factors. Such assumptions and other factors include trends, the incidence of incurred claims, the extent to which all claims have been reported, and internal claims processing charges. The process used in establishing reserves cannot be exact, particularly for liability coverages, since actual claim costs are dependent upon such complex factors as inflation, changes in doctrines of legal liability and damage awards. The methods of making such estimates and establishing the related liabilities are periodically reviewed and updated.

Reinsurance
In the ordinary course of business, the CICL Group's insurance subsidiaries cede reinsurance to other insurance companies. These arrangements allow for greater diversification of business and minimise the net loss potential arising from large risks. Ceded reinsurance contracts do not relieve the CICL Group of its obligation to its insureds. Reinsurance premiums ceded are recognised and commissions thereon are earned over the period that the reinsurance coverage is provided.

Reinstatement premiums are recorded and fully expensed as they fall due. Return premiums due from reinsurers are included in premiums and other receivables in the Consolidated Balance Sheets.

Reinsurers' share of unearned premiums represents the portion of premiums ceded to reinsurers applicable to the unexpired terms of the reinsurance contracts in force.

Reinsurance recoverables include the balances due from reinsurance companies for paid and unpaid losses and loss expenses that will be recovered from reinsurers, based on contracts in force. A reserve for uncollectible reinsurance has been determined based upon a review of the financial condition of the reinsurers and an assessment of other available information.

Contract deposits
Contracts written by the CICL Group which are not deemed to transfer significant underwriting and/or timing risk are accounted for as contract deposits and are included in premiums and other receivables. Liabilities are initially recorded at an amount equal to the assets received and are included in accounts payable and other liabilities in the Consolidated Balance Sheets.

The CICL Group uses the risk-free rate of return of equivalent duration to the liabilities in determining risk transfer and records the transactions using the interest method. The CICL Group periodically reassesses the estimated ultimate liability. Any changes to this liability are reflected as an adjustment to interest expense to reflect the cumulative effect of the period the contract has been in force and by an adjustment to the future internal rate of return of the liability over the remaining estimated contract term.

Goodwill and intangible assets
Goodwill represents the excess of acquisition costs over the net fair values of identifiable assets acquired and liabilities assumed in a business combination. Pursuant to Statement of Financial Accounting Standard No. 142, Goodwill and Other Intangible Assets (‘FAS 142’), goodwill is deemed to have an indefinite life and is not amortised, but rather tested at least annually for impairment.

The goodwill impairment test has two steps. The first step identifies potential impairments by comparing the fair value of a reporting unit with its book value, including goodwill. If the fair value of the reporting unit exceeds the carrying amount, goodwill is not impaired and the second step is not required. If the carrying value exceeds the fair value, the second step calculates the possible impairment loss by comparing the implied fair value of goodwill with the carrying amount. If the implied goodwill is less than the carrying amount, a write-down would be recorded. The measurement of fair values of the reporting units is determined based on an evaluation of a number of factors, including ranges of future discounted earnings. Certain key assumptions considered include forecasted trends in revenues, operating expenses and effective tax rates.

Intangible assets are valued at their fair value at the time of acquisition. The CICL Group’s intangible assets relate to the purchase of syndicate capacity, the distribution network and admitted as well as surplus lines licenses.

Purchased syndicate capacity and admitted licenses are considered to have an indefinite life and as such are subject to annual impairment testing. Surplus lines authorisations are considered to have a finite life and are amortised over their estimated useful lives of five years. Distribution channels are amortised over their useful lives of five years.

The CICL Group evaluates the recoverability of its intangible assets whenever changes in circumstances indicate that an intangible asset may not be recoverable. If it is determined that an impairment exists, the excess of the unamortised balance over the fair value of the intangible asset is recognised as a change in net income.

Other assets
Other assets include prepaid items, property and equipment and income tax recoverable.

Property and equipment are stated at cost less accumulated depreciation. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of four to ten years for fixtures and fittings, four years for automobiles and two years for computer equipment. Leasehold improvements are amortised over the life of the lease or the life of the improvement, whichever is shorter. Computer software development costs are capitalised when incurred and depreciated over their estimated useful lives of five years.

Comprehensive income/(loss)
Comprehensive income/(loss) represents all changes in equity that result from recognised transactions and other economic events during the period. Other comprehensive income/(loss) refers to revenues, expenses, gains and losses that are included in comprehensive income/(loss) but excluded from net income/(loss), such as foreign currency translation adjustments.

Foreign currency translation and transactions
Foreign currency translation
The presentation currency of the CICL Group is US dollars. The financial statements of each of the CICL Group's entities are initially measured using the entity's functional currency, which is determined based on its operating environment and underlying cash flows. For entities with a functional currency other than US dollars, foreign currency assets and liabilities are translated into US dollars using period-end rates of exchange, while statements of operations are translated at average rates of exchange for the period. The resulting translation differences are recorded as a separate component of accumulated other comprehensive income/(loss) within stockholder's equity.

Foreign currency transactions
Monetary assets and liabilities denominated in currencies other than the functional currency are revalued at period-end rates of exchange, with the resulting gains and losses included in income. Revenues and expenses denominated in foreign currencies are translated at average rates of exchange for the period.

Income taxes
Income taxes have been provided for those operations that are subject to income taxes. Deferred tax assets and liabilities result from temporary differences between the amounts recorded in the consolidated financial statements and the tax basis of the CICL Group's assets and liabilities. Such temporary differences are primarily due to the recognition of untaxed profits, and intangible assets arising from the acquisition of Wellington in December 2006. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in income in the period that includes the enactment date. A valuation allowance against deferred tax assets is recorded if it is more likely than not that all or some portion of the benefits related to deferred tax assets will not be realised.

Stock compensation
The CICL Group accounts for stock-based compensation arrangements under the provisions of Statement of Financial Accounting Standard No. 123 (Revised 2004), Accounting for Stock-Based Compensation ('FAS 123R').

The fair value of options is calculated at the date of grant based on the Black-Scholes Option Pricing Model. The corresponding compensation charge is recognised on a straight-line basis over the requisite service period.

The fair value of non-vested shares is calculated on the grant date based on the share price and the exchange rate in effect on that date and is recognised on a straight-line basis over the vesting period. This calculation is updated on a regular basis to reflect revised expectations and/or actual experience.

Pensions
The CICL Group operates defined contribution pension schemes for eligible employees, the costs of which are expensed as incurred.

As a result of the acquisition of Wellington in December 2006, the CICL Group also sponsors a defined benefit pension scheme which was closed to new members in 1993. The recorded asset related to the plan was set equal to the value of plan assets in excess of the defined benefit obligation at the date of the business combination.

Risk and uncertainties
In addition to the risks and uncertainties associated with unpaid losses and loss expenses described above and in Note 7, cash balances, investment securities and reinsurance recoveries are exposed to various risks, such as interest rate, market, foreign exchange and credit risks. Due to the level of risk associated with investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the financial statements. The cash balances and investment portfolio are managed following prudent standards of diversification. Specific provisions limit the allowable holdings of a single institution issue and issuers. Similar diversification provisions are in place governing the CICL Group's reinsurance programme. Management believes that there are no significant concentrations of credit risk associated with its investments and its reinsurance programme.

New accounting pronouncements
Effective 1 January 2008, the CICL Group adopted Statement of Financial Accounting Standard No. 157, Fair Value Measurements ('FAS 157'). FAS 157 provides a common definition of fair value and establishes a framework to make the measurement of fair value under US GAAP more consistent and comparable. FAS 157 requires expanded disclosures about the CICL Group's assets and liabilities that are carried at fair value, as described in Note 5. The adoption of FAS 157 did not result in any cumulative-effect adjustment to the CICL Group's opening retained earnings at 1 January 2008, or any material impact on the CICL Group's results of operations, financial position or liquidity.

Effective 1 January 2008, the CICL Group adopted FAS 159. FAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value with gains and losses recorded in the statement of operations. The objective is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The CICL Group elected to adopt the FAS 159 fair value option to its available for sale investment portfolio. On adoption of FAS 159, net unrealised gains of $14,424, after allowing for tax effects, have been reclassified from accumulated other comprehensive income to opening retained earnings as at 1 January 2008.

In October 2008 the FASB issued the FASB Staff Position Statement of Financial Accounting Standard No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active ('FAS 157-3'), clarifying the application of FAS 157 in a market that is not active. It offers an illustrative example of the valuation of a security in an inactive market as guidance. FAS 157-3 is effective upon issuance. The adoption of FAS 157-3 has not resulted in a material effect on the CICL Group's financial position or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132 (R) ('FAS 158'). This statement requires recognition of the overfunded or underfunded status of defined benefit pension and other postretirement plans as an asset or liability in the balance sheet and changes in that funded status to be recognised in comprehensive income in the year in which the changes occur. FAS 158 also require measurement of the funded status of a plan as at the balance sheet date. The recognition provisions of FAS 158 are effective for reporting periods ending after 15 December 2006, while the measurement date provisions are effective for reporting periods ending after 15 December 2008. The adoption of the measurement date provisions of FAS 158 in 2009 will not have a material effect on the CICL Group's financial position or results of operations.

In December 2007, the FASB issued Statement of Financial Accounting Standard No. 141 (R), Business Combinations – a replacement of Statement of Financial Accounting Standard No. 141 ('FAS 141R'), which changes the principles and requirements for how the acquirer of a business recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. The statement also provides guidance for recognising and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This statement is effective prospectively for fiscal years beginning after 15 December 2008. The CICL Group will adopt FAS 141R in 2009. The adoption of FAS 141R is not expected to have a material effect on the CICL Group's current financial position or results of operations but may affect future acquisitions.

In December 2007, the FASB issued Statement of Financial Accounting Standard No. 160, Non-Controlling Interests in Consolidated Financial Statements – an amendment of ARB No. 51 ('FAS 160'). This statement establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. The statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosures to be on the face of the consolidated statement of operations, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. This statement is effective prospectively, except for certain retrospective disclosure requirements, for reporting periods beginning after 15 December 2008. The CICL Group will adopt FAS 160 in 2009. The adoption of FAS 160 is not expected to have a material effect on the CICL Group's financial position or results of operations.

In March 2008 the FASB issued Statement of Financial Accounting Standard No. 161, Disclosures About Derivative Instruments and Hedging Activities, an Amendment to Statement of Financial Accounting Standard No. 133 ('FAS 161'). FAS 161 establishes the disclosure requirements for derivative instruments and for hedging activities. The Standard requires expanded disclosure of how and why an entity uses derivative instruments, how derivatives and related hedged items are accounted for under FAS 133 and its related interpretation, and how derivatives and related hedged items affect an entity's financial position, financial performance and cash flows. FAS 161 is effective for financial statements issued for fiscal years beginning after 15 November 2008; however, early adoption is encouraged. The CICL Group will adopt FAS 161 in 2009. The adoption of FAS 161 is not expected to have a material effect on the CICL Group's financial position.

In May 2008 FASB issued Statement of Financial Accounting Standard No. 162, The Hierarchy of Generally Accepted Accounting Principles ('FAS 162'). FAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with US GAAP. FAS 162 is effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The adoption of FAS 162 will not have a material effect on the CICL Group's financial position or results of operations.

3 Segmental information

The CICL Group determines its reportable segments by platform, consistent with the manner in which results are reviewed by management. The four reportable segments are:

- Catlin Syndicate, which comprises direct insurance and reinsurance business underwritten by the CICL Group's syndicates at Lloyd's;
- Catlin Bermuda, which primarily underwrites reinsurance business, excluding intra-Group reinsurance;
- Catlin UK, which primarily underwrites direct insurance; and
- Catlin US, which primarily underwrites direct insurance in the United States.

At 31 December 2008, there were four significant intra-Group reinsurance contracts in place: the 50 per cent Corporate Quota Share ('CQS'), which cedes Catlin Syndicate risk to Catlin Bermuda; the 60 per cent Quota Share contract ('CUK QS') which cedes Catlin UK risk to Catlin Bermuda; and also two 75 per cent Quota Share contracts ('CUS QS') which cede Catlin US risk to Catlin Bermuda. The effects of each of these reinsurance contracts are excluded from segmental revenue and results, as this is the basis upon which the performance of each segment is assessed.

Net underwriting contribution by operating segment for the year ended 31 December 2008 is as follows:

	Catlin Syndicate	Catlin Bermuda	Catlin UK	Catlin US	Total
Gross premiums written	$2,416,416	$391,781	$486,420	$142,387	$3,437,004
Reinsurance premiums ceded	(682,998)	(61,189)	(61,259)	(20,115)	(825,561)
Net premiums written	1,733,418	330,592	425,161	122,272	2,611,443
Net premiums earned	1,792,979	304,101	407,429	91,532	2,596,041
Losses and loss expenses	(1,097,575)	(159,477)	(310,757)	(64,028)	(1,631,837)
Policy acquisition costs	(339,088)	(63,150)	(88,030)	(19,970)	(510,238)
Net underwriting contribution	$356,316	$81,474	$8,642	$7,534	$453,966

Net underwriting contribution by operating segment for the year ended 31 December 2007 is as follows:

	Catlin Syndicate	Catlin Bermuda	Catlin UK	Catlin US	Total
Gross premiums written	$2,537,904	$311,976	$439,440	$71,306	$3,360,626
Reinsurance premiums ceded	(665,581)	(48,151)	(69,427)	(3,949)	(787,108)
Net premiums written	1,872,323	263,825	370,013	67,357	2,573,518
Net premiums earned	1,903,044	228,647	305,198	52,645	2,489,534
Losses and loss expenses	(835,089)	(88,925)	(200,010)	(30,646)	(1,154,670)
Policy acquisition costs	(399,137)	(43,427)	(72,649)	(15,759)	(530,972)
Net underwriting contribution	$668,818	$96,295	$32,539	$6,240	$803,892

Of total revenue as reported in the CICL Group's Consolidated Statement of Operations, only net premiums earned are measured and managed on a segmental basis.

Assets are reviewed in total by management for purposes of decision making. The CICL Group does not allocate assets to its segments.

4 Investments

Fair value option
As described in Note 2, the CICL Group elected to apply the fair value option to its available for sale investment portfolio with effect from 1 January 2008. Fixed maturity and short-term investments reported at 31 December 2008 are carried at fair value with gains and losses reported in income. The comparative balances as at 31 December 2007 represent securities classified as available for sale.

The fair values and amortised costs of fixed maturities at 31 December 2008 and 2007 are as follows:

	2008		2007	
	Fair value	Amortised cost	Fair value	Amortised cost
US government and agencies	$673,323	$629,536	$721,952	$704,623
Non-US governments	394,211	372,393	424,098	426,520
Corporate securities	763,420	775,923	529,906	527,476
Asset-backed securities	256,702	289,867	428,508	429,438
Mortgage-backed securities	620,565	745,835	844,486	840,660
Total fixed maturities	$2,708,221	$2,813,554	$2,948,950	$2,928,717

$273,473 (2007: $289,091) of the total mortgage-backed securities at 31 December 2008 are represented by investments in Government National Mortgage Association, Federal National Mortgage Association, Federal Home Loan Bank and Federal Home Loan Mortgage Corporation bonds.

The composition of the fair values of fixed maturities by ratings assigned by ratings agencies is as follows:

	2008		2007	
	Fair value	%	Fair value	%
US government and agencies	$673,323	25	$721,952	24
Non-US governments	394,211	15	424,098	14
AAA	1,102,689	41	1,305,150	45
AA	134,098	5	182,208	6
A	364,421	13	285,556	10
BBB	31,678	1	27,174	1
Other	7,801	-	2,812	-
Total fixed maturities	$2,708,221	100	$2,948,950	100

The gross unrealised gains and losses related to fixed maturities at 31 December 2008 and 2007 are as follows:

	2008		2007	
	Gross unrealised gains	Gross unrealised losses	Gross unrealised gains	Gross unrealised losses
US government and agencies	$45,781	$1,994	$17,409	$80
Non-US governments	21,818	-	3,243	5,665
Corporate securities	15,217	27,720	5,226	2,796
Asset-backed securities	629	33,794	1,381	2,311
Mortgage-backed securities	8,761	134,031	5,754	1,928
Total fixed maturities	$92,206	$197,539	$33,013	$12,780

Fixed maturities at 31 December 2008, by contractual maturity, are shown below. Expected maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties.

	Fair value	Amortised cost
Due in one year or less	$159,809	$162,325
Due after one through five years	1,336,298	1,298,917
Due after five years through ten years	274,507	260,458
Due after ten years	60,340	56,152
	1,830,954	1,777,852
Asset-backed securities	256,702	289,867
Mortgage-backed securities	620,565	745,835
Total	$2,708,221	$2,813,554

The CICL Group did not have an aggregate investment with a single counterparty, other than the US government in excess of 10 per cent of total investments at 31 December 2008 and 2007.

Investments in funds
The CICL Group has classified its investments in funds as trading securities and, accordingly, all realised and unrealised gains and losses on these investments are recorded in net income in the Consolidated Statements of Operations. The investments comprise investments in bond funds, equity funds, internal fund of funds, and funds of funds. The internal fund of funds comprises 25 individual hedge funds across a diversified set of managers, strategies and underlying asset classes.

Values of investments in funds by category at 31 December 2008 and 2007 are as follows:

	2008	2007
Equity funds	$78,824	$112,293
Internal fund of funds	432,578	541,621
Funds of funds	158,385	162,510
Bond funds	131,000	129,994
Total investments in funds	$800,787	$946,418

Net investment income
The components of net investment income for the years ended 31 December 2008 and 2007 are as follows:

	2008	2007
Interest income	$233,724	$267,622
Investment in associate	5,203	983
Investment expenses	(6,308)	(3,200)
Net investment income	$232,619	$265,405

Restricted assets
The CICL Group is required to maintain assets on deposit with various regulatory authorities to support its insurance and reinsurance operations. These requirements are generally promulgated in the statutory regulations of the individual jurisdictions. These funds on deposit are available to settle insurance and reinsurance liabilities. The CICL Group also has investments in segregated portfolios primarily to provide collateral or guarantees for Letters of Credit ('LOC'), as described in Note 10. Finally, the CICL Group also utilises trust funds set up for the benefit of the ceding companies in place of LOC requirements.

The total value of these restricted assets by category at 31 December 2008 and 2007 is as follows:

	2008	2007
Fixed maturities	$1,565,661	$1,422,521
Short-term investments	5,000	22,881
Cash and cash equivalents	350,100	558,868
Total restricted assets	$1,920,761	$2,004,270

Securities lending
The CICL Group participates in a securities lending arrangements under which certain of its fixed maturity investments are loaned to third parties through a lending agent. Collateral in the form of cash, government securities and letters of credit is required at a minimum rate of 102 per cent of the market value of the loaned securities and is monitored and maintained by the lending agent. The CICL Group had $32,350 (2007: $43,917) of securities on loan at 31 December 2008.

5 Fair value measurement

FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e. the 'exit price') in an orderly transaction between market participants at the measurement date. In determining fair value, management uses various valuation approaches, including market and income approaches. FAS 157 establishes a hierarchy for inputs used in measuring fair value that maximises the use of observable inputs and minimises the use of unobservable inputs by requiring that the most observable inputs be used when available. The three levels of the FAS 157 hierarchy are described below.

Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the CICL Group has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Assets utilising Level 1 inputs comprise investments in equity funds.

Level 2 - Valuations based on quoted prices in markets that are not active or for which significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

Assets and liabilities utilising Level 2 inputs include: US government and agency securities; non-US government obligations, corporate and municipal bonds, mortgage-backed securities ('MBS') and asset-backed securities ('ABS') to the extent that they are not identified as Level 3 items; over-the-counter ('OTC') derivatives (e.g. foreign currency options and forward contracts); and hedge fund investments with few restrictions on redemptions or new investors.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The unobservable inputs reflect our own assumptions about assumptions that market participants might use.

Assets and liabilities utilising Level 3 inputs include: insurance and reinsurance derivative contracts; hedge funds with significant redemption restrictions; sub-prime and Alt-A securities where the

unobservable inputs reflect individual assumptions and judgments regarding ultimate delinquency and foreclosure rates and estimates regarding the likelihood and timing of events of defaults.

The availability of observable inputs can vary from financial instrument to financial instrument and is affected by a wide variety of factors, including, for example, the type of financial instrument, whether the financial instrument is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires significantly more judgment. Accordingly, the degree of judgment exercised by management in determining fair value is greatest for instruments categorised in Level 3. The CICL Group uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified between levels.

Assets and liabilities measured at fair value on a recurring basis
The table below shows the values at 31 December 2008 of assets and liabilities measured at fair value on a recurring basis, analysed by the level of inputs used.

	Balance as at 31 December 2008	Level 1 inputs	Level 2 inputs	Level 3 inputs
Assets				
Fixed maturities	$2,708,221	$-	$2,671,132	$37,089
Short-term investments	68,982	-	68,982	-
Investments in funds	800,787	158,385	308,872	333,530
Derivative assets	6,602	-	-	6,602
Total assets at fair value	$3,584,592	$158,385	$3,048,986	$377,221
Liabilities				
Derivative liabilities	$17,163	$-	$17,163	$-

The changes in the period in balances measured at fair value on a recurring basis using Level 3 inputs were as follows:

	Fixed maturities	Investments in funds	Derivative (liabilities)/assets
Balance, 1 January 2008	$82,370	$241,121	$(9,099)
Total net (losses) gains included in income	(24,304)	(91,211)	15,701
Net (disposals) purchases	(20,977)	34,000	-
Level 3 transfers in	-	152,441	-
Foreign exchange	-	(2,821)	-
Balance, 31 December 2008	$37,089	$333,530	$6,602
Amount of net (losses) gains relating to balances still held at the year end	$(24,824)	$(91,211)	$15,701

Gains and losses on fixed maturities and gains and losses on derivative instruments are recorded in the statement of operations.

Fair value option
The CICL Group has elected to adopt the FAS 159 fair value option to its fixed maturities and short-term investments. Losses of $111,488 in relation to changes in the fair values of these assets have been included in the 2008 Consolidated Statement of Operations.

6 Investment in associate

On 2 September 2008, the CICL Group, through Catlin Inc., one its US subsidiaries, sold its 25 per cent membership interest in Southern Risk Operations, L.L.C. ('SRO') which was accounted for using the equity method. The CICL Group received cash distributions from SRO during the year ended 31 December 2008 of $1,240 (2007: $1,064). The share of SRO's profit included within the Consolidated Statement of Operations during 2008 was $560 (2007: $983). The CICL Group's share of the gain on sale was $4,643 and its share of the proceeds was $6,500. Under the terms of the sale, the CICL Group may be entitled to further contingent consideration dependent on further thresholds being met in the next five years.

7 Reserves for losses and loss expenses

The CICL Group establishes reserves for losses and loss expenses, which are estimates of future payments of reported and unreported losses and related expenses, with respect to insured events that have occurred. The process of establishing reserves is complex and imprecise, requiring the use of informed estimates and judgments. The CICL Group's estimates and judgments may be revised as additional experience and other data become available and are reviewed, as new or improved methodologies are developed or as current laws change. Any such revisions could result in future changes in estimates of losses or reinsurance recoverable, and would be reflected in earnings in the period in which the estimates are changed. Management believes that they have made a reasonable estimate of the level of reserves at 31 December 2008 and 2007.

The reconciliation of unpaid losses and loss expenses for the years ended 31 December 2008 and 2007 is as follows:

	2008	2007
Gross unpaid losses and loss expenses, beginning of year	$4,237,525	$4,005,133
Reinsurance recoverable on unpaid loss and loss expenses	(860,181)	(996,896)
Net unpaid losses and loss expenses, beginning of year	3,377,344	3,008,237
Net incurred losses and loss expenses for claims related to:		
Current year	1,750,110	1,293,914
Prior years	(118,273)	(139,244)
Total net incurred losses and loss expenses	1,631,837	1,154,670
Net paid losses and loss expenses for claims related to:		
Current year	60,337	(105,218)
Prior years	(1,211,494)	(832,278)
Total net paid losses and loss expenses	(1,151,157)	(937,496)
Foreign exchange and other	(326,191)	50,930
Loss portfolio transfer	4,384	101,003
Net unpaid losses and loss expenses, end of year	3,536,217	3,377,344
Reinsurance recoverable on unpaid losses and loss expenses	1,070,039	860,181
Gross unpaid losses and loss expenses, end of year	$4,606,256	$4,237,525

As a result of the changes in estimates of insured events in prior years, the 2008 reserves for losses and loss expenses net of reinsurance recoveries decreased by $118,273 (2007: $139,244). The decrease in reserves relating to prior years was due to reductions in expected ultimate loss costs and reductions in uncertainty surrounding the quantification of the net cost claim events.

2008 hurricanes
The table below shows the CICL Group's estimated ultimate loss relating to Hurricanes Ike and Gustav as at 31 December 2008.

	2008
Gross loss	$334,706
Reinsurance recoveries	(61,317)
Net loss prior to reinstatement premiums	273,389
Net reinstatement premiums	(24,380)
Net loss	$249,009

The figures above represent management's best estimate of the likely final losses to the Group from the 2008 hurricanes. In making this estimate, management has used the best information available, including estimates determined by the CICL Group's underwriters, actuarial and claims staff, retained external actuaries, outside agencies and market studies. Allowance is made in the overall management best estimate of net unpaid losses for an appropriate level of sensitivity, for both individual large losses and the overall portfolio of business. In respect of the 2008 hurricanes, management have particularly considered sensitivities relating to gross losses on direct and reinsurance accounts, underlying loss experience of cedants and reinsurance coverage and security issues.

Loss portfolio transfer
In 2008, Syndicate 2020 closed the 2005 Lloyd's underwriting year of account by way of a Lloyd's reinsurance to close. In closing the 2005 year of account, all outstanding losses were transferred into the 2006 year of account. The CICL Group had an additional ownership of approximately 0.59 per cent acquired from the external Names in respect of the 2006 year of account, which resulted in an increase in loss reserves of $4,384; this has been treated as a loss portfolio transfer. In 2007, the 2004 Lloyd's underwriting year of account was closed, resulting in an increase in loss reserves of $101,003. To the extent that the future run-off of the 2005 and 2004 year of account differs from what has been recorded, that development will be recorded in the Consolidated Statement of Operations in the period that it is incurred.

8 Reinsurance

The CICL Group purchases reinsurance to limit various exposures including catastrophe risks. Although reinsurance agreements contractually obligate the CICL Group's reinsurers to reimburse it for the agreed-upon portion of its gross paid losses, they do not discharge the primary liability of the CICL Group. The effect of reinsurance and retrocessional activity on premiums written and earned is as follows:

	2008		2007	
	Premiums written	Premiums earned	Premiums written	Premiums earned
Direct	$2,466,600	$2,372,052	$2,505,216	$2,355,056
Assumed	970,404	936,351	855,410	804,110
Ceded	(825,561)	(712,362)	(787,108)	(669,632)
Net premiums	$2,611,443	$2,596,041	$2,573,518	$2,489,534

On 21 February 2008, the Company entered into a reinsurance contract with Newton Re Limited ('Newton Re') for $150,000 of annual aggregate protection against accumulated losses from US windstorm, US earthquake, European windstorm, Japanese typhoon and Japanese earthquake events in the CICL Group's property treaty book. The transaction provides coverage on a first-event and accumulated aggregate retrocession protection on a collateralised basis. No claims have arisen to date.

The collateral value (and interest payable under associated notes issued by Newton Re to investors not affiliated with the CICL Group) were supported by a total return swap. The bankruptcy of the total return swap counterparty, Lehman Brothers Inc, on 15 September 2008 resulted in the termination of the total return swap. The total return swap has not been replaced and, as at 31 December 2008, the collateral value is less than the full indemnity limit of $150,000. Given the likelihood of claims at that level and the current value of the collateral, the CICL Group's incremental exposure is not considered to be material.

The CICL Group's provision for reinsurance recoverable as at 31 December 2008 and 2007 is as follows:

	2008	2007
Gross reinsurance recoverable	$1,259,927	$1,046,241
Provision for uncollectible balances	(34,296)	(33,460)
Net reinsurance recoverable	$1,225,631	$1,012,781

The CICL Group evaluates the financial condition of its reinsurers and potential reinsurers on a regular basis and also monitors concentrations of credit risk with reinsurers. All current reinsurers have financial strength rating of at least 'A' from Standard and Poor's or 'A-' from A.M. Best at the time of placement, or provide appropriate collateral. However, certain reinsurers from prior years have experienced a reduced ratings which has led to the need for the provision. At 31 December 2008, there were three reinsurers who each accounted for 5 per cent or more of the total reinsurance recoverable balance.

	% of reinsurance recoverable	Best rating
Munich Re	12%	A+
Hannover Ruck-AG	8%	A
Swiss Re	7%	A+

9 Derivative financial instruments

Catastrophe swap agreements

Newton Re

On 17 December 2007, the Company entered into a contract that provides up to $225,000 in coverage in the event of one or more natural catastrophes. The Company's counterparty in the catastrophe swap ('cat swap') is a special purpose vehicle, Newton Re. Newton Re has issued to investors $225,000 in three-year floating rate notes, divided into Class A and Class B notes. The proceeds of those notes provide the collateral for Newton Re's potential obligations to the Company under the cat swap.

The Newton Re cat swap responds to certain covered risk events occurring during a three-year period. The categories of risk events covered by the transaction are US hurricanes and US earthquakes. Newton Re will pay a maximum of $137,500 for US hurricane events and $87,500 for US earthquake events.

The Newton Re cat swap will be triggered for risk events if aggregate insurance industry losses, as estimated by Property Claims Services ('PCS'), meet or exceed defined threshold amounts.

The cat swap has not been triggered as at 31 December 2008.

Bay Haven
On 17 November 2006, the Company entered into a cat swap that provides up to $200,250 in coverage in the event of a series of natural catastrophes. The Company's counterparty in the cat swap is a special purpose vehicle, Bay Haven Limited ('Bay Haven'). Bay Haven has issued to investors $200,250 in three-year floating rate notes, divided into Class A and Class B notes. The proceeds of those notes provide the collateral for Bay Haven's potential obligations to the Company under the cat swap.

The Bay Haven cat swap responds to certain covered risk events occurring during a three-year period. No payment will be made for the first three such risk events. Bay Haven will pay the Company $33,375 per covered risk event thereafter, up to a maximum of six events. The aggregate limit potentially payable to the Company is $200,250.

The categories of risk events covered by the Bay Haven cat swap are: US hurricanes, California earthquakes, US Midwest earthquakes, UK windstorms, European (excluding UK) windstorms, Japanese typhoons and Japanese earthquakes. Only one payment will be made for each covered risk event, but the cat swap will respond to multiple occurrences of a given category of risk event, such as if more than one qualifying US hurricane occurs during the period.

The Bay Haven cat swap will be triggered for US risk events if aggregate insurance industry losses, as estimated by PCS, meet or exceed defined threshold amounts. Coverage for non-US risk events will be triggered if specific parametric criteria, such as wind speeds or ground motions, are met or exceeded. The first two events paid under the cat swap would impact the Class B notes; subsequent events, up to the limit of six events over the three-year period, would impact the Class A notes.

In addition, on 17 November 2006 the Company entered into a further cat swap agreement with Royal Bank of Scotland (formerly ABN AMRO Bank N.V. London Branch) which will respond to the third covered risk event (that is, the covered risk event before the Class B notes are triggered). The terms are otherwise as described for the Class A and Class B notes, except that the limit payable is $56,500.

Values of Catastrophe Swap Agreements
The Newton Re and Bay Haven cat swaps fall within the scope of FAS 133 and are therefore measured in the balance sheet at fair value with any changes in the fair value included in the change in fair value of derivatives in the Statements of Operations. As at 31 December 2008, the fair value of the cat swaps is an asset of $6,602 (2007: a liability of $9,099). Because there is no liquid market in these derivatives, the fair values are determined by management based on the valuation of the notes issued by Newton Re and Bay Haven. The fair value of the Newton Re cat swap is derived from indicative prices for the Class A and Class B notes issued by Newton Re. The fair value of the Bay Haven cat swap is determined using an internal model that takes into account changes in the market for catastrophe reinsurance contracts with similar economic characteristics and the potential for recoveries from events preceding the valuation date.

Other derivative instruments
On acquisition of Wellington, the CICL Group acquired various foreign currency derivatives (forward contracts, caps and collars) and options to purchase shares in Aspen Insurance Group ('Aspen'). As at 31 December 2008, the fair value of the foreign currency derivatives was a liability of $17,163 (2007: asset of $9,035), of which $17,163 (2007: $6,139) had a remaining term of less than 12 months.

In March 2007, the CICL Group exercised the share options it held with respect to Aspen. Following the exercise of the options to purchase 3,781,120 shares on a cash-less basis at an exercise price of $22.52 and a share price of $25.38, Catlin received 426,083 shares. The sale of the shares began 30 March and was completed on 12 April 2007. The resulting sale resulted in a capital loss of $6,354 recorded in change in fair value of derivatives.

10 Subordinated debt and financing arrangements

The CICL Group's outstanding subordinated debt as at 31 December 2008 and 2007 consisted of the following:

	2008	2007
Variable rate, face amount €7,000, due 15 March 2035	$10,247	$10,873
Variable rate, face amount $27,000, due 15 March 2036	28,264	28,831
Variable rate, face amount $31,300, due 15 September 2036	32,879	33,480
Variable rate, face amount $9,800, due 15 September 2036	10,287	10,482
Variable rate, face amount €11,000, due 15 September 2036	16,204	17,159
Total subordinated debt	$97,881	$100,825

Subordinated debt
On 12 May 2006 Catlin Underwriting (formerly 'Wellington Underwriting plc') issued $27,000 and €7,000 of variable rate unsecured subordinated notes. The notes are subordinated to the claims of all Senior Creditors, as defined in the agreement. The notes pay interest based on the rate on three-month deposits in US Dollars plus a margin of 317 basis points for the Dollar note and 295 basis points for the Euro note. Interest is payable quarterly in arrears. The notes are redeemable at the discretion of the issuer beginning on 15 March 2011 with respect to the Dollar notes and 22 May 2011 with respect to the Euro notes.

On 20 July 2006 Catlin Underwriting issued $31,300, $9,800 and €11,000 of variable rate unsecured subordinated notes. The notes are subordinated to the claims of all Senior Creditors, as defined in the agreement. The notes pay interest based on the rate on three-month deposits in US dollars plus a margin of 310 basis points for the $31,300 notes and 300 basis points for the other two notes. Interest is payable quarterly in arrears. The notes are each redeemable at the discretion of the issuer beginning 15 September 2011.

Bank facilities
Since November 2003, the CICL Group has participated in a Letter of Credit/Revolving Loan Facility (the 'Club Facility'). The Club Facility has been varied, amended and restated since it was originally entered into, most recently on 10 September 2008, when the credit available under the Club Facility increased from $400,000 and £275,000 to $600,000 and £320,000, respectively. The facility initially included three banks; on 15 December 2006 it increased to four banks and on 25 January 2007 it expanded to seven banks. The Club Facility is composed of three tranches as detailed below. The following amounts were outstanding under the Club Facility as at 31 December 2008:

- A 364-day $100,000 revolving facility with a one-year term-out option ('Facility A') is available for utilisation by the CICL Group. Facility A, while not directly collateralised, is secured by floating charges on the Company's assets and cross-guarantees from material subsidiaries (together with Facilities B and C). Facility A has not been drawn down.

- Clean, irrevocable standby LOCs of $467,200 (£320,000) are available to support the Catlin Syndicate's underwriting at Lloyd's ('Facility B'). As at 31 December 2008, the Catlin Corporate Names have utilised Facility B and deposited with Lloyd's 13 LOCs which total the amount of $386,900 (£265,000). In the event that the Catlin Syndicate fails to meet its obligations under policies of insurance written on its behalf, Lloyd's could draw down this letter of credit. These LOCs have an initial expiry date of 27 November 2012.

- A two-year $500,000 standby LOC facility is available for utilisation by the Company and Catlin UK ('Facility C'). It is further split into two equal tranches of $250,000 with the first being fully secured by OECD Government Bonds, US Agencies, Corporate and Asset Backed securities and or cash discounted at varying rates. The second tranche is unsecured. At 31 December 2008, $231,783 in LOCs were outstanding, of which $228,352 were issued for the benefit of insureds and re-insureds of the Company, and $3,431 (£1,675) issued for the benefit of an insured of Catlin UK. $120,652 of the LOCs were issued on an unsecured basis. Facility C has an expiry date of 31 December 2010.

The terms of the Club Facility require that certain financial covenants be met on a quarterly basis through the filing of Compliance Certificates. These include maximum levels of possible exposures to realistic disaster scenarios for the CICL Group, as well as requirements to maintain minimum tangible net worth. The CICL Group was in compliance with all covenants during 2008.

A second LOC Facility administered by Citibank on behalf of Lloyd's acting for the Lloyd's Syndicates had LOCs totalling $6,954 outstanding at 31 December 2008. These LOCs are fully secured.

Catlin US issued LOCs to state regulators and other parties. These LOCs amount to $5,912 and are secured.

11 Intangible assets and goodwill

The CICL Group's intangibles relate to the purchase of syndicate capacity, customer relationships, distribution channels and US insurance licenses (as admitted and eligible surplus lines insurers).

Net intangible assets and goodwill as at 31 December 2008 and 2007 consist of the following:

	Goodwill	Indefinite life intangibles	Finite life intangibles	Total
Net value at 1 January 2007	$86,235	$770,495	$11,296	$868,026
Movements during 2007:				
Amendments to purchase price allocation	5,542	-	-	5,542
Foreign exchange revaluation	1,274	11,721	80	13,075
Amortisation charge	-	-	(2,215)	(2,215)
Total movements during 2007	6,816	11,721	(2,135)	16,402
Net value at 31 December 2007	93,051	782,216	9,161	884,428
Movements during 2008:				
Foreign exchange revaluation	(23,078)	(207,437)	(921)	(231,436)
Amortisation charge	-	-	(2,244)	(2,244)
Total movements during 2008	(23,078)	(207,437)	(3,165)	(233,680)
Net value at 31 December 2008	$69,973	$574,779	$5,996	$650,748

Goodwill, purchased syndicate capacity and admitted licenses are considered to have an indefinite life and as such are subject to annual impairment testing. Neither goodwill nor intangibles were impaired in 2008 or 2007.

Distribution channels and surplus lines authorisations are considered to have a finite life and are amortised over their estimated useful lives of five years. As at 31 December 2008, the gross carrying amount of finite life intangibles was $10,015 (2007: $11,456) and accumulated amortisation was $4,019 (2007: $2,295). Amortisation of intangible assets at current exchange rates will amount to approximately $2,015 per annum for the next three years and nil thereafter.

In 2007, amendments to the purchase price allocation in relation to the Wellington acquisition in 2006 resulted in an increase in related goodwill from $68,970 to $74,512. This increase was primarily due to additional acquisition expenses of $1,366 and an increase of $2,664 in the liability for restructuring costs.

Syndicate capacity
The syndicate capacity comprises underwriting capacity that the CICL Group purchased in connection with the acquisition of Wellington in December 2006 and the cessation of Syndicate 2020 and amounts purchased by Catlin in 2002.

Syndicate capacity is tested annually for impairment by comparing management's estimate of its fair value to the amount at which it is carried in the CICL Group's balance sheet.

The fair value of the CICL Group's syndicate capacity is assessed by reference to market activity and internally developed cash flow models. In 2008 and 2007, management determined that the fair value of syndicate capacity exceeded its carrying value and no impairment has been recorded.

Effective 1 January 2007, Syndicate 2020 ceased underwriting and the purchased capacity (and that falling to the CICL Group by way of cessation of Syndicate 2020) has been re-deployed to increase the capacity of Syndicate 2003.

12 Taxation

Bermuda
Under current Bermuda law the Company is not required to pay any taxes in Bermuda on its income or capital gains. The Company has received undertakings from the Minister of Finance in Bermuda that, in the event of any taxes being imposed, it will be exempt from taxation in Bermuda until March 2016.

United Kingdom
The CICL Group also operates in the UK through its UK subsidiaries and the income of the UK companies is subject to UK corporation taxes.

Income from the CICL Group's operations at Lloyd's is also subject to US income taxes. Under a Closing Agreement between Lloyd's and the Internal Revenue Service ('IRS'), Lloyd's Members pay US income tax on US connected income written by Lloyd's syndicates. US income tax due on this US connected income is calculated by Lloyd's and remitted directly to the IRS and is charged by Lloyd's to Members in proportion to their participation on the relevant syndicates. The CICL Group's Corporate Members are all subject to this arrangement but, as UK residents, will receive UK corporation tax credits for any US income tax incurred up to the value of the equivalent UK corporation income tax charge on the US income.

United States
The CICL Group also operates in the United States through its subsidiaries and their income is subject to both US state and federal income taxes.

Other international income taxes
The CICL Group has a network of international operations and they also are subject to income taxes imposed by the jurisdictions in which they operate, but they do not constitute a material component of the CICL Group's tax charge.

The CICL Group is not subject to taxation other than as stated above. There can be no assurance that there will not be changes in applicable laws, regulations or treaties, which might require the CICL Group to change the way it operates or become subject to taxation.

The income tax (benefit) /expense for the years ended 31 December 2008 and 2007 is as follows:

	2008	2007
Current tax benefit	$(40,780)	$-
Deferred tax expense	31,141	59,790
(Benefit)/expense for income taxes	$(9,639)	$59,790

The weighted average expected tax (benefit)/expense has been calculated using pre-tax accounting income/(loss) in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate. The weighted average tax rate for the CICL Group in 2008 is not considered to be meaningful (2007: 10.5 per cent).

A reconciliation of the difference between the (benefit)/expense for income taxes and the expected tax (benefit)/expense at the weighted average tax rate for the years ended 31 December 2008 and 2007 is provided below.

	2008	2007
Expected tax expense at weighted average rate	$(26,122)	$98,206
Permanent differences:		
Disallowed expenses	2,479	1,938
Valuation allowances	11,032	-
Prior year adjustments including changes in uncertain tax positions	2,972	(23,385)
Impact of tax rate changes	-	(16,969)
(Benefit)/expense for income taxes	$(9,639)	$59,790

The components of the CICL Group's net deferred tax liability as at 31 December 2008 and 2007 are as follows:

	2008	2007
Deferred tax assets:		
Net operating loss carryforwards	$65,122	$56,911
Stock options	4,184	7,839
Deep discount security unwind	-	1,146
Accelerated capital allowances	2,557	1,989
Compensation accruals	382	12,329
Syndicate capacity amortisation and other	1,450	3,093
Valuation allowance	(20,249)	(9,217)
Total deferred tax assets	$53,446	$74,090
Deferred tax liabilities:		
Untaxed profits	(142,562)	(179,784)
Intangible assets arising on business combination	(87,210)	(119,148)
Total deferred tax liabilities	$(229,772)	$(298,932)
Net deferred tax liability	$(176,326)	$(224,842)

As at 31 December 2008, there are potential deferred tax assets of $20,249 (2007: $9,217) in the US companies relating to 2008 calendar year losses but a 100 per cent valuation allowance has been recognised in respect of the losses in both 2008 and 2007.

As at 31 December 2008, the CICL Group has net operating loss carry forwards of $161,984 (2007: $170,336) which are available to offset future taxable income. The net operating loss carry forwards primarily arise in the UK subsidiaries where they are expected to be fully used. There are no time restrictions on the use of these losses.

Uncertain tax benefits
With effect from 1 January 2007, the CICL Group adopted FASB Interpretation No. 48, Accounting for Uncertainly in Income Taxes – an Interpretation of Statement of Financial Accounting Standard No. 109 ('FIN 48'). On adoption of FIN 48, the total amount of the CICL Group's unrecognised tax benefits arising from uncertain tax positions was $11,201. As at 31 December 2008, this amount was $7,800 (2007:$9,300). All unrecognised tax benefits would affect the effective tax rate if recognised.

A reconciliation of the beginning and ending amount of unrecognised tax benefits arising from uncertain tax positions is as follows:

	2008	2007
Unrecognised tax benefits balance at 1 January	$9,300	$-
Gross increases for tax positions in current year	-	11,201
Gross increases for tax positions of prior years	-	7,031
Gross decreases for tax positions of prior years	(1,500)	(8,932)
Unrecognised tax benefits balance at 31 December	$7,800	$9,300

The CICL Group does not believe it would be subject to any penalties in any open tax years and has not accrued any such amounts. The CICL Group accrues interest and penalties (if applicable) as income tax expenses in the consolidated financial statements. The CICL Group did not pay or accrue any interest or penalties in 2008 or 2007 relating to uncertain tax positions.

The following table lists the open tax years that are still subject to examinations by local tax authorities in major tax jurisdictions:

Major tax jurisdiction	Years
United Kingdom	2006-2008
United States	2006-2008

13 Stockholder's equity

The following sets out the number and par value of shares authorised, issued and outstanding as at 31 December 2008 and 2007:

	2008	2007
Common stock, par value $1		
Authorised	1,034,000	1,034,000
Issued and outstanding	1,000,100	1,000,100
Preferred shares, par value $0.01		
Authorised, issued and outstanding	600,000	600,000

On 11 January 2007, the Company converted 6,000 authorised but unissued common stock with a par value of $1 each into 600,000 non-cumulative preferred shares, par value $0.01 each.

Capital Contribution
On the 14 December 2007, the Company received a non-cash contribution of $700,000 from its parent as additional paid-in capital.

Preferred shares
On 18 January 2007, the Company issued 600,000 of non-cumulative perpetual preferred shares, par value of $0.01 per share, with liquidation preference of $1,000 per share, plus declared and unpaid dividends. Dividends at a rate of 7.249 per cent on the liquidation preference are payable semi-annually on 19 January and 19 July in arrears as and when declared by the Board of Directors, , commencing on 19 July 2007 up to but not including 19 January 2017. Thereafter, if the shares have not yet been redeemed, dividends will be payable quarterly at a rate equal to 2.975 per cent plus the three-month LIBOR rate of the liquidation preference. The Company received proceeds of approximately $589,785, net of issuance costs, which were used to repay a $500,000 bridge facility, a $50,000 revolving loan issued under Facility A , and for general corporate purposes. The preference shares do not have a maturity date and are not convertible into or exchangeable into any of the Company's or the Group's other securities.

Dividends on re-organisation
As described in Note 1, one of the Company's subsidiaries acquired a number of entities from the Company's parent. In accordance with US GAAP, the entities acquired have been recognised at their previous carrying value in the books of the parent as all entities involved were under common control. As a result, there was a shortfall of $275,932 between the consideration paid to the Company's parent and the carrying value of the entities acquired. This shortfall has been recorded as a distribution from the Company to its parent.

Dividends on preferred shares
On 19 January and 19 July 2008, the Board of the Company paid a dividend of $21,750 to the stockholders of the non-cumulative perpetual preferred shares. On 19 July 2007, the Company paid a dividend of $21,868 on the preferred shares.

14 Employee stock compensation schemes

Employees of the CICL Group participate in two stock compensation schemes in place at its parent, Catlin Group Limited, under which awards are outstanding: the Performance Share Plan ('PSP'), adopted in 2004, and a Long Term Incentive Plan ('LTIP'), adopted in 2002. Employees of the CICL Group also participate in two Employee Share Plans in place, both of which were adopted in 2008. These financial statements include the total cost of stock compensation for all plans, calculated using the fair value method of accounting for stock-based employee compensation charged to CICL Group companies from its parent.

During 2008, performance against these conditions has been adversely affected, primarily by the decrease in reported net assets. Expected total compensation relating to PSP awards part of which was expensed in previous periods, has therefore reduced, which has resulted in a credit to income in the year. The total amount credited to income in respect of the plans in the year ended 31 December 2008 was $1,705 (2007: expense of $12,559) and is included in administrative and other expenses. Remaining stock compensation to be expensed in future periods relating to these plans is $2,833. As described below, the valuation of the PSP is periodically revised to take into account changes in performance against vesting conditions.

Performance Share Plan
On 6 March 2008, a total of 3,574,960 options with $nil exercise price and 1,129,047 non-vested shares (total of 4,704,007 securities) were awarded to CICL Group employees under the PSP. On 6 August 2008, a further 109,766 options with $nil exercise price and 49,816 non-vested shares (total of 159,582 securities) were awarded, resulting in a total of 4,863,589 securities granted to CICL Group employees under the PSP in 2008. Up to half of the securities will vest in 2011 and up to half will vest in 2012, subject to certain performance conditions.

These securities have been treated as non-vested shares and as such have been measured at their fair value on the grant date as if they were fully vested and issued and assuming an annual attrition rate amongst participating employees of 5 per cent for grants made in 2008, 7 per cent for grants made in 2007, 4 per cent for grants made in 2006 and 3 per cent for grants made in 2005. This initial valuation is revised at each balance sheet date to take account of actual achievement of the performance condition that governs the level of vesting and any changes that may be required to the attrition assumption. The difference is charged or credited to the income statement, with a corresponding adjustment to equity. The total number of PSP securities outstanding at 31 December 2008 was 10,666,241 (2007: 7,212,032) and the total amount credited to income relating to the PSP for the year ended 31 December 2008 was $1,705 (2007: expense of $12,355).

The weighted average grant date fair value of the options awarded in 2008 is $8.74 and the total fair value of shares vested during the year is $8,271 (2007:$nil).

The table below shows the PSP securities as at 31 December 2008:

	Outstanding	Non-vested	Vested
Beginning of year	7,212,032	7,212,032	-
Granted during year	4,863,589	4,863,589	-
Vested during the year	-	(941,105)	941,105
Forfeited during year	(703,745)	(703,745)	-
Exercised during the year	(705,635)	-	(705,635)
End of year	10,666,241	10,430,771	235,470
Exercisable, end of year	235,470	-	235,470

Employee Share Plans
The UK Savings-Related Share Option Scheme ('SharesaveUK' or 'plan') was approved by the stockholders of the Group on 14 May 2008. The plan is administered by an external party. Employees in the UK that met minimum employment criteria of the designated participating subsidiaries are eligible for participation in the plan. Eligible employees can elect to invest up to a maximum of £0.25 per month for the full three-year period of the plan. Employees who participate in the SharesaveUK can, at the end of the plan period, purchase the Group's shares at a 20 per cent discount on the market price at the grant date of the award. At 31 December 2008, a total of 551,742 shares have been awarded at an option price of £3.18 per share ($6.30 per share).

The US Employee Stock Purchase Plan ('ESPP' or 'plan') was also approved by the stockholders of the Group on 14 May 2008 and is administered by an external party. Employees in the US that met minimum employment criteria of the designated participating subsidiaries were eligible for participation in the plan. Eligible employees could contribute up to 15 per cent of their base salary, subject to a maximum of $21.25, during the approximately 12-month offering period towards the purchase of the Group's shares, up to a total fair market value of $25 in each plan year. For the 2008-2009 plan year, employees who participate in the ESPP could purchase the Group's shares at a 15 percent discount on the fair market price at the grant date. At 31 December 2008, employees enrolled to purchase a total of 70,103 shares for the 2008-2009 plan year at a share price of $7.05 per share (£3.58 per share).

The expense related to the Employee Share Plans is considered to be insignificant.

Long Term Incentive Plan
Interests in a total of 10,370,952 ordinary common shares were granted to eligible employees in 2004 and prior years. The LTIP options were fully exercised and expensed by 31 December 2007. There was no compensation expense in relation to the LTIP for the year ended 31 December 2008 (2007: $204).

The options are fully vested as at 31 December 2008 and all options will expire by 4 July 2012. The table below shows the vesting dates and the number of options that have vested on those dates:

Date	Number of options vesting
4 July 2003	934,046
6 April 2004 (IPO date)	2,889,292
4 July 2004	1,026,197
4 July 2005	1,013,094
4 July 2006	1,005,500
4 July 2007	3,502,823
Total	10,370,952

The table below shows the status of the interests in shares as at 31 December 2008 and 2007:

	2008		2007	
	Number	Weighted average exercise price ($)	Number	Weighted average exercise price ($)
Outstanding, beginning of year	2,575,852	4.94	8,850,039	9.76
Exercised during year	(510,734)	4.94	(501,044)	5.92
Forfeited during year	-	-	(130,168)	12.32
Expired during year	-	-	(5,642,975)	12.53
Outstanding, end of year	2,065,118	4.94	2,575,852	4.94
Exercisable, end of year	2,065,118	4.94	2,575,852	4.94

Exercise price	Number of options outstanding	Average remaining contractual life (years)
$5.00	1,886,625	3.5
£3.50	178,493	3.5
Total	2,065,118	3.5

As at year end, there was no amount receivable from stockholders on the exercise of interests in shares.

The fair value of the options granted during 2004 was calculated using the Black-Scholes valuation model and is amortised over the expected vesting period of the options, being four years for the £3.50 tranche, 1.875 for the performance-based tranche that vested on admission and 3.625 for the performance-based tranche that vested on 4 July 2007. The valuation has assumed an average volatility of 40 per cent, no expected dividends and a risk-free rate using US dollar swap rates appropriate for the expected life assumptions: 2.8 per cent for four years; 1.79 per cent for 1.875 years; and 2.64 per cent for 3.625 years.

The fair value of the options granted prior to 2004 was calculated using the Black-Scholes valuation model and is being amortised over the expected vesting period of the options, being 4.0 years from the date of the subscription agreement. The valuation has assumed a risk free rate of return at the average of the four- and five-year US dollar swap rates of 3.39 per cent and no expected volatility (as the minimum value method was utilised because the Company was not listed on the date the options were issued).

15 Other comprehensive (loss)/income

The following table details the individual components of other comprehensive (loss)/income for 2008 and 2007:

2008	Amount before tax	Tax benefit/ (expense)	Amount after tax
Cumulative effect of adoption of FAS 159	$(20,233)	$5,809	$(14,424)
Defined benefit pension plan	1,121	(314)	807
Cumulative translation adjustments	(307,031)	(18,824)	(325,855)
Change in accumulated other comprehensive loss	$(326,143)	$(13,329)	$(339,472)

2007	Amount before tax	Tax benefit/ (expense)	Amount after tax
Unrealised losses arising during the year	$(42,547)	$6,450	$(36,097)
Reclassification for losses realised in income	78,970	(13,259)	65,711
Net unrealised losses on investments	36,423	(6,809)	29,614
Defined benefit pension plan	(818)	264	(554)
Cumulative translation adjustments	42,097	(6,247)	35,850
Change in accumulated other comprehensive income	$77,702	$(12,792)	$64,910

The following table details the components of accumulated other comprehensive (loss) /income as at 31 December:

	2008	2007
Net unrealised gains / (losses) on investments	$-	$14,424
Cumulative translation adjustments	(300,905)	24,950
Funded status of defined benefit pension plan adjustment	253	(554)
Accumulated other comprehensive (loss)/income	$(300,652)	$38,820

16 Pension commitments

The CICL Group operates various pension schemes for the different countries of operation. In addition, the Group acquired a defined benefit pension plan and defined contribution plans as a part of the Wellington acquisition.

In the UK, the CICL Group operates defined contribution schemes for certain directors and employees, which are administered by third-party insurance companies. The pension cost for the UK scheme was $8,664 for the year ended 31 December 2008 (2007: $8,035).

In Bermuda, the CICL Group operates a defined contribution scheme, under which the CICL Group contributes a specified percentage of each employee's earnings. The pension cost for the Company scheme was $662 for the year ended 31 December 2008 (2007: $733).

In the US, the CICL Group has adopted a 401(k) Profit Sharing Plan ('the Plan') qualified under the Internal Revenue Code in which all employees meeting specified minimum age and service requirements are eligible to participate. The Plan allows eligible participants to contribute a portion of their salary to the Plan on a tax-deferred basis. Catlin Inc. will match the employee contributions up to 100 per cent of the first 6 per cent of salary contributed. An additional discretionary contribution may be made to the plan as determined by the Board of Directors of Catlin Inc. on an annual basis and allocated on a pro rata basis to individual employees based on eligible compensation. The pension cost for the Plan for the year ended 31 December 2008 was $4,412. (2007: $2,875). In 2005, Catlin Inc. established a Non-Qualified Deferred Compensation Plan ('Non-Qualified Plan') under which higher-paid employees are eligible for supplemental retirement benefits in excess of statutory limitations on Plan contributions and benefits. The expense related to the Non-Qualified Plan in for the year ended 31 December 2008 was $1,636 (2007:$575).

Defined benefit pension scheme
In connection with the acquisition of Wellington in December 2006, the CICL Group assumed liabilities associated with a defined benefit pension scheme which Wellington sponsored. The scheme has been closed to new members since 1993. The current membership consists only of pensioners and deferred members. The movements in the period are shown in the table below.

	2008	2007
Projected benefit obligation, beginning of year	$31,860	$32,720
Change in projected benefit obligation:		
Interest cost	1,665	1,654
Actuarial gain	(4,475)	(1,074)
Benefits paid	(1,811)	(1,948)
Foreign exchange	(7,511)	508
Projected benefit obligation, end of year	19,728	31,860
Fair value of plan assets, beginning of year	32,781	34,429
Change in plan assets:		
Expected return on plan assets	1,728	1,742
Actuarial loss	(4,274)	(1,970)
Contributions by the company	857	-
Benefits paid	(1,811)	(1,938)
Foreign exchange	(7,993)	518
Fair value of plan assets, end of year	21,288	32,781
Reconciliation of funded status:		
Funded status	1,560	921
Net pension asset recognised at year end	$1,560	$921

The amounts recognised in net income were as follows:

	2008	2007
Interest cost	$1,665	$1,654
Expected return on plan assets	(1,728)	(1,742)
Net credit recognised in net income	$(63)	$(88)

The actuarial assumptions used to value the benefit obligation at 31 December were as follows:

	2008	2007
Discount rate	7.2%	5.8%
Price inflation	2.6%	3.4%
Pension increases to pensions in payment	3.0%	3.0%

The objectives in managing the scheme's investments are to ensure that sufficient assets are available to pay members' benefits as they arise, with due regard to minimum regulatory requirements and the employer's ability to meet contribution payments. It is believed that, in relation to membership consisting only of pensioners and deferred members, these objectives are best met by investment in fixed income securities. The investments are in a pooled, non-government bond fund which is diversified across a large number of securities in order to reduce specific risk.

As at 31 December 2008, 100 per cent of plan assets were held in debt securities. No plan assets are expected to be returned to the CICL Group during 2009.

The overall expected return on assets is calculated as the weighted average of the expected returns on each individual asset class. The return on debt securities is the current market yield on debt securities. The expected return on other assets is derived from the prevailing interest rate set by the Bank of England as at the measurement date.

Estimated future benefit payments for the defined benefit pension plan, are as follows:

2009	$1,737
2010	$1,606
2011	$1,869
2012	$1,781
2013	$1,883
2014-2018	$11,023

Contributions of $657 are expected to be paid to the defined benefit plan in 2009.

17 Statutory financial data

The Company is registered under The Insurance Act 1978 (Bermuda), Amendments Thereto and Related Regulations (the "1978 Act"). Under the 1978 Act, the Company is required to maintain minimum share capital of $1.0 million and to meet minimum liquidity ratios, a minimum solvency margin equal to the greater of $100.0 million, 50% of net premiums written or 15% of the loss and loss expense provisions and effective 31 December 2008.

The 1978 Act also limits the maximum amount of annual dividends and distributions that may be paid by the Company. The Company shall not pay dividends in any year which would exceed 25% of its prior year statutory capital and surplus or reduce its prior year statutory capital by 15% or more, without the prior notification to, and in certain cases the approval of, the BMA. In addition, The Bermuda Companies Act 1981 (the "Companies Act") limits the Company's ability to pay dividends and distributions to shareholders if there are reasonable grounds for believing that the company would be unable to pay its liabilities as they become due or if the realizable value of its assets would be less than the aggregate of its liabilities, issued share capital and share premium accounts.

The CICL Group's subsidiaries' statutory capital and surplus was $2,370,569 at 31 December 2008 (2007: $3,283,887). The statutory capital and surplus of each of its principal operating subsidiaries is in excess of regulatory requirements.

The CICL Group is also subject to restrictions on some of its assets used to support its insurance and reinsurance operations, as described in Note 4.

18 Commitments and contingencies

Legal proceedings

The CICL Group is party to a number of legal proceedings arising in the ordinary course of the CICL Group's business which have not been finally adjudicated. While the results of the litigation cannot be predicted with certainty, management believes that the outcome of these matters will not have a material impact on the results of operations or financial condition of the CICL Group.

Concentrations of credit risk

Areas where significant concentration of risk may exist include investments, reinsurance recoverable and cash and cash equivalent balances.

The cash balances and investment portfolio are managed following prudent standards of diversification. Specific provisions limit the allowable holdings of a single institution issue and issuers. Similar principles are followed for the purchase of reinsurance. The CICL Group believes that there are no significant concentrations of credit risk associated with its investments or its reinsurers. Note 8 describes concentrations of more than 5 per cent of the CICL Group's total reinsurance recoverable asset.

Letters of credit

The CICL Group provides financing under its Club Facility to enable it to continue trading and meet its liabilities as they fall due, as described in Note 10.

Future lease commitments

The CICL Group leases office space and equipment under non-cancellable operating lease agreements, which expire at various times. Future minimum annual lease commitments for non-cancellable operating leases as at 31 December 2008 are as follows:

2009	$11,756
2010	$11,551
2011	$11,017
2012	$9,743
2013 and thereafter	$32,550
Total	$76,617

Under non-cancellable sub-lease agreements, the CICL Group is entitled to receive future minimum sub-lease payments of $13,685 (2007: $1,298).

19 Related parties

The CICL Group purchased services from Catlin Estates Limited and Burnhope Lodge, both of which are controlled by a Director of the Group. The cost of the services purchased from Catlin Estates Limited and Burnhope Lodge was $397 (2007: $242).

During 2007, the CICL Group entered into a lease agreement with The Whitfield Group Ltd., the president of which is related to a Director of the Company. The agreement expires on 30 June 2009. Total rent incurred during 2008 amounted to $162 (2007: $141).

All transactions with related parties were entered into on normal commercial terms.

The balances due (to)/from the Company's parent represent inter-company expenses paid on behalf of the other party, as well as balances related to the corporate re-organisation that was finalised in 2007.

20 Subsequent events

Preferred share dividend
The Board of the Company approved a dividend of $21,750 to the shareholders of the non-cumulative perpetual preference shares. This dividend was paid on 19 January 2009.

Reinsurance to Close
On 27 February 2009 (previously agreed on 11 February 2009), Catlin Underwriting Agencies Limited, one of the Company's subsidiaries, agreed that Syndicate 2020 would close its 2006 Lloyd's underwriting year of account by way of a Lloyd's reinsurance to close into Syndicate 2003. Under the reinsurance to close, liability for Syndicate 2020's outstanding losses was assumed by Syndicate 2003 for the payment of a premium equal to loss reserves. As a result of the transaction, the CICL Group (via Syndicate 2003) will assume the 33 per cent of Syndicate 2020's outstanding losses previously attributable to third party members of Syndicate 2020, in addition to the 67 per cent share already held by the CICL Group.